

## Message Text

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10

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 CEA-01 /085 W

----- 095523

R 030014Z SEP 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 7175

INFO ALL CONCULATES IN MEXICO BY POUCH

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E.O. 11652: N/A

TAGS: WFIN, ETRD, MX

SUBJ: INITIAL MEXICAN REACTION TO FLOATING PESO

REF: A) MEXICO 11259; B) MEXICO 11213; C) MEXICO 11253

1. SUMMARY: PESO BEING TRADED SEPT 2 FOR 20 TO 21  
AGAINST THE DOLLAR REPRESENTING EFFECTIVE DEVALUATION  
OF ABOUT 60 PERCENT IN PESO TERMS SINCE TUESDAY NIGHT. THERE  
IS WIDESPREAD DISCUSSION OF THE EVENT BUT OUTWARDLY  
MOST PEOPLE TAKING IT CALMLY. INCREASED INFLATION  
SEEMS INEVITABLE AND THE MEDIUM TO LONG RANGE EFFECT  
ON MEXICO WILL IN OUR VIEW BE SUBSTANTIAL. END SUMMARY.

2. BECAUSE OF THE PRESIDENT'S STATE OF THE UNION  
ADDRESS (REFTEL A) MEXICAN BANKS WERE CLOSED SEPT 1.  
PESO WAS TRADED UNOFFICIALLY AT VARYING RATES HERE  
AND IN NEW YORK WITH REPORTED SPREAD FROM 16 BUYING  
TO 24 SELLING. HOWEVER, SEPT 2 IN MEXICO CITY THERE  
IS WIDESPREAD BUYING AND SELLING IN 20/21 RANGE.

3. THIS DRASIC CHANGE IS BEING ACCEPTED WITH

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APPARENT CALM, PARTLY, WE SUSPECT, BECAUSE THE LOWER

INCOME GROUPS DON'T REALLY UNDERSTAND THE IMPLICATIONS, AND PARTLY BECAUSE THE UPPER ECONOMIC GROUPS HAVE LONG SINCE MOVED ALL AVAILABLE FUNDS OUT OF PESOS. FOR PRACTICAL PURPOSES, THE LAST MEXICAN DEVALUATION WAS IN 1954. THERE ARE DISTURBING INDICATIONS THAT VARIOUS SECTORS EXPECT TO BE ABLE TO OFFSET THE EFFECT WITH WAGE INCREASES OR PRICE INCREASES -- THUS LARGELY NEGATING WHAT FLOATING THE PESO HOPED TO ACCOMPLISH. EVEN SECRETARY OF INDUSTRY AND COMMERCE, CAMPILLO SANIZ, ADMITTED THAT "SOME PRICES WILL RISE DUE TO FLOATING OF PESO". AND DIRECTOR OF PEMEX INDICATED A RISE IN PRICE OF PETROLEUM PRODUCTS WILL BE NECESSARY.

4. VARIOUS MEXICO CITY PAPERS RECOGNIZED SIGNIFICANCE OF ACTION; EXCELSIOR HAS ALMOST ENTIRE FRONT PAGE DEVOTED TO ARTICLES ON FLOAT--WITH CORRESPONDING LITTLE ATTENTION TO PRESIDENT'S STATE OF UNION MESSAGE. NOVEADADES HAS LONG EDUCATIONAL REVIEW STARTING ON FRONT PAGE OF HOW SITUATION CAME ABOUT, JUSTIFICATION FOR MEASURE, DESCRIPTION OF WHAT FLOATING A CURRENCY MEANS, AND THE EFFECTS UPON SECTORS OF THE ECONOMY. SOME ARTICLES SHOW AWARENESS OF WHAT MEXICO FACES IN THE WAY OF HARSHIPS ON LOWER CLASS. WE HAVE REPORTS THAT SUPERMARKETS EXPERIENCE RUN ON STAPLE GOODS AND THAT SOME STORES BUSILY MARKING UP PRICES.

5. REACTION TO FLOAT IN VARIOUS CONSULAR DISTRICTS IN MEXICO SEEMS TO VARY ACCORDING TO DISTANCE FROM U.S. BORDER AND DEGREE OF DEPENDANCE ON DOLLAR. CIUDAD JUAREZ REPORTS SOME MERCHANTS NERVOUSLY REFUSING TO ACCEPT PESOS. SOME ARE ADJUSTING PRICES UPWARD. ON OTHER HAND, OTHER JUAREZ BUSINESSMEN BELIEVE LONG RUN EFFECT WILL BE BENEFICIAL. GUADALAJARA REPORTS THAT SERIOUS WAVE OF PRICE INCREASES EXPECTED AND BUSINESSMEN QUESTION THEIR ABILITY TO FINANCE PRODUCTION.

6. COMMENT: EVEN TAKING INTO ACCOUNT MEXICAN LACK OF EXPERIENCE WITH DEVALUATION, WE BELIEVE IT LIMITED OFFICIAL USE

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BODES BADLY FOR MEXICO THAT NO GROUPS, AT LEAST NO VOCAL GROUPS, SEEM TO REALIZE THAT A SUCCESSFUL DEVALUATION MUST BE ACCOMPLISHED BY SOME AUSTERITY-- THAT SOME OR ALL OF THE POPULATION WILL HAVE TO FEEL SOME PINCH. UNFORTUNATELY, THE SERIES OF MEASURES OUTLINED BY THE PRESIDENT (REFTEL C) TO ACCOMPANY THE FLOAT SEEM MORE DESIGNED TO OFFSET THE POSITIVE EFFECTS OF THE FLOAT THAN TO MAKE IT WORK.

WHILE WE WOULD ANTICIPATE SOME GOM ACTION TO REDUCE THE WINDFALL PROFITS OF THOSE BENEFITTING (E.G. EXPORTERS) AND TO HELP THOSE MOST SERIOUSLY IMPACTED, THE OVERALL TONE SEEMS TO BE OTHER THAN A CALL FOR SACRIFICES, EQUITABLE OR OTHERWISE.

7. MUCH WILL OF COURSE DEPEND ON THE POLITICAL WILL OF THE OUTGOING AND INCOMING ADMINISTRATIONS TO STAND FAST AGAINST UNREASONABLE WAGE DEMANDS OR PRICE INCREASES. THE PAST RECORD OF THE ECHEVERRIA ADMINISTRATION IS FAR FROM ENCOURAGING AT LEAST AS CONCERN WAGE INCREASES. AND IT WOULD BE A HEAVY BURDEN ON LOPEZ PORTILLO TO HAVE TO BEGIN HIS ADMINISTRATION BY CRACKING DOWN HARD ON TRADE UNIONS, DENYING CREDIT TO BUSINESS OR FURTHER REDUCING GOVERNMENT EXPENDITURES.

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